

Statement on Introduction of the Digital Goods and

Services Tax Fairness Act of 2010

June 30, 2010

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Madam Speaker, I rise today to introduce the Digital Goods and Services Tax Fairness Act. I am pleased to be joined by my colleague from Texas Lamar Smith, the Ranking Member of the Judiciary Committee, as the lead Republican cosponsor of the legislation.

Presently, consumers and businesses engaged in digital commerce may be subject to multiple, confusing and burdensome taxation because of inconsistent rules across the thousands of state and local jurisdictions. Disparate treatment of digital goods and services across these jurisdictions creates further confusion for consumers and businesses.

Digital commerce extends far beyond the digital music, movies and games downloaded by consumers to the electronic delivery of professional services, educational services and health care services.

The existing sales and use tax laws are inadequate and ill-equipped to address today's digital economy. The borderless marketplace and complex nature of digital transactions create new problems that must be addressed uniformly and on a national level to avoid double taxation and to ensure the fair and equitable treatment of digital goods and services.

Unfair, multiple and inconsistent taxation of these digital goods and services will increase costs for U.S. businesses and make them less competitive in the global economy. The additional costs will also hinder investment by high-tech businesses in the broadband networks used to provide new and innovative digital goods and services.

Unfair taxes on digital goods and services also discourage lower-income consumers from using innovative digital services and technologies.

The first state tax on digital goods was imposed in 2007. One year later, eleven additional states considered legislation to impose new taxes on digital goods, and in 2009 fourteen states considered legislation addressing the taxation of digital goods and services. Several states have attempted to impose telecommunication specific taxes on downloaded music sold by communication providers, taxes which would not be imposed on similar products sold by non-communication companies.

A consistent, national framework for the state and local taxation of digital goods and services is therefore needed to ensure the fair, consistent and equitable taxation of these goods and services.

The Digital Goods and Services Tax Fairness Act addresses this clear need by establishing a uniform national framework for the taxation of digital goods and services.

Our measure prohibits state and local jurisdictions from imposing multiple or discriminatory taxes on the sale or use of digital goods and services, ensuring that digital goods and services are not taxed differently from their physical counterparts.

It provides that taxes may only be imposed on the retail sale or use of digital goods or services, preventing repeated taxation of digital goods and services at multiple stages of the transaction.

The legislation also ensures that only the jurisdiction encompassing the customers' tax address

may impose taxes on digital goods and services, preventing the consumer from being taxed by multiple states. For example, a consumer who lives in Virginia could download a digital application from a server in Washington while on vacation in Idaho. Without our national framework, all three states could potentially try and impose taxes on this transaction.

Our measure also prevents state and local tax administrators from retroactively construing taxes imposed on tangible personal property to also apply to digital goods and services through administrative rulings or regulations.

Finally, in recognition of the critical role that online health, energy management and education services play in our economy, our measure exempts these services from all state and local taxes.

Our legislation has been endorsed by a wide range of stakeholders, including the Recording Industry Association of America, Verizon, Apple, Time Warner and Electronic Arts, among others.

I hope my colleagues will join with us in enacting into law the Digital Goods and Services Tax Fairness Act of 2010.